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SIPDIS

STATE PASS USGS FOR MICAEL FOOSE, INTERNATIONAL PROGRAMS
STATE PASS TO USAID AFR/SD FOR CURTIS, ATWOOD AND SCHLAGENHAUF
STATE PASS TO USTDA-PAUL MARIN
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TREASURY FOR IERONIMO AND BARCAN, OAN
DOC FOR 3317/ITA/OA/BURRESS AND 3130/USFC/OIO/ANESA/REED

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SUBJECT: NIGERIA SEEKS TO REKINDLE ITS DILAPIDATED MINING SECTOR -
PLATEAU STATE

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SUMMARY

¶1. Nigeria is a leading hydrocarbon producer and has allowed its mineral sector to decline through an overdependence on oil and the relative neglect of its non-oil sectors. The GON now seeks to restore its mineral sector and to declare itself "open for business." It implemented new policy and legislation as of 2007 that sought to create a more attractive minerals investment environment. The GON still needs to establish implementing regulations to provide an investor-friendly framework. The Embassy Minerals Team found enthusiasm for mining in the old tin mining capital of Jos in Plateau State, but existing mining activity is small-scale, vestigial and almost artisanal. The World Bank has promulgated a small-scale mining program that has funded a mining institute in Jos and may be able to play a useful role. The USGS may be able to partner some activities with the World Bank. There is scope for further minerals assessment in other regions in Nigeria. END SUMMARY.

OVERVIEW OF THE MINERALS TEAM VISIT

¶2. The Minerals Team, comprised by Embassy Abuja Economic Counselor and Deputy Chief, Embassy Pretoria Minerals/Energy Officer and

Specialist, and USGS Africa Coordinator, recently conducted meetings in Abuja and in and around the Plateau State capital of Jos to assess the status and potential of minerals production in Nigeria. The Minerals Team worked closely with former Commissioner of Mines Markus Pwajok and Engineer Francis Ahmadu to generate a full program of a working dinner with government representatives, three active mine visits, a tour of the Nesco Power Plant, and a Mining Roundtable at the Nigerian Institute of Mining. The team also visited the Nigerian Extractive Industries Transparency Initiative (NEITI), the Ministry of Mines and Steel Development's Sustainable Management of Mineral Resources Project in Abuja (funded by the World Bank), and the Nigerian Geological Survey Agency in Abuja.

13. Plateau State has been associated with mining as far back as 1902. The British developed a robust exploitation of tin, columbite, and associated minerals during colonial times, but these suffered from tin price busts, under-investment, and nationalization over time. The state government claims that there are very large reserves of tin-related columbite, cassiterite, and zircon minerals, which have specialized uses as tantalum, niobium, and alloy products which have specialized uses as tantalum, niobium, and alloy products used in aircraft engines and nuclear reactors. In addition, there is significant potential for gemstones, lead, zinc, kaolin (for pharmaceuticals and detergents), tantalite (for computers, aircraft, and nuclear systems), gypsum, dimension stone, and titanium.

MINING ROUND-TABLE - CHALLENGES AND OPPORTUNITIES

14. The flagship event for the Minerals Team was head-lining the Mining Roundtable at the Nigerian Institute of Mining on September 29, which was televised and covered by the local press. Economic Counselor noted the positive attributes for Jos in attracting mining

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investment: proven reserves, a reliable source of power, the plateau's relatively pleasant and healthy climate, and a good international school. The key challenges he identified were: obtaining domestic or foreign financing, volatile commodity prices, and assuring a stable investment environment. The Miner's Association and a number of other mining representatives asserted that there were adequate and economic mineral deposits and proven reserves in the region, although a few noted that the information was out-dated. Consolidated Tin Mines (CTM) Managing Director Frank Kwueme said they had 80,000 tons of proven reserves of cassiterite and 14,000 tons of columbite under the 600 leases previously owned by Amalgamated Tin Mines. He asserted that this was based on reliable (albeit old) work done by the British. Kwueme applauded the decision of the Government of Nigeria to eventually privatize the 60 percent stake it held in CTM as a result of nationalization in 1972. He and others noted that nationalization was an abject failure that created a legacy of under-investment in the sector. (He cited the image of the large, defunct Bucyrus Erie drag line that has rusted in place next to a flooded strip mine on the edge of Jos.) Kwueme observed that the sector. An Environmental NGO and other participants noted the environmental and community safety contingent liability from years of mining and then neglect, resulting in around 4,000 flooded and, according to some, toxic, open-pits in the area. The new law requires adequate rehabilitation, but it is unclear how effectively it will be implemented. The new Nigerian Institute of Mining (NIM) was recognized as a useful establishment to develop human resources.

Pennsylvania State has been involved in curriculum development and will participate in a training of trainers program early in 2011. The World Bank-funded institute could be a partner for the USGS in Nigeria. The team toured the facility which includes multiple classrooms and a minerals processing area, available for both research and practical use by miners. The NIM Director declared the research and practical use by miners. The NIM Director declared the roundtable such a success that he recommended continuing it on a quarterly basis and inviting other Embassies to participate, probably starting with Australia.

SMALL-SCALE AND ARTISANAL MINING

¶16. The three active mines visited around Jos were small-scale, vestigial, and almost artisanal in scope. Rayfield Mine owner/operator Joshua Egbagbe hosted the Minerals Team at his open-pit, "junior-miner" columbite mine on September 28. He told the team that there was a potential production of 50-100 tons of columbite per month (\$500,000 per month at current prices), but noted that the mine was substantially shut down because of the price drop. He said he had partnered with a Russian interest and had entertained unrequited interest from Chinese and South African investors. Egbagbe was critical of the Chinese as murky buyers and alleged that Chinese interests had unsuccessfully sought to steal rights to the ground beneath his mine. He lets some 500 artisanal

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workers operate freely on the open-pit mine site. It appeared to the Minerals Team that any serious investor would want to carefully remove the informal miners by job offers or by compartmentalizing their activities. It was also apparent that any attempt to drive them off could easily result in the sabotage of his unfenced and unguarded equipment.

¶17. The Rim Mine is a small-scale operation, reached by fording a small river. (The Minerals Team shared boots and/or were ferried across on the backs of workers.) This mine relies on a dilapidated pump to provide water for sluicing to provide primary separation of tin, ilmenite, and cassiterite-bearing ores, mined under a 60-foot over-burden. The economics of the mine looked challenging, exacerbated by the antiquated pump. The Minerals Team will look at potential sourcing of a jig that might be used by the NIM to help this and other mines increase the recovery of tin, ilmenite and cassiterite, for which much of the finer material is currently being washed down the river. This mine is an old lease of Consolidated Tin Mines. The Team also visited the small-scale Sho mine, which is exploiting kaolin and gypsum. This mine employs a crusher to generate 90 tons per month of Kaolin worth \$50 per ton. The kaolin is used as a filler for detergent, paint, and fertilizer produced in Nigeria.

VINTAGE HYDRO-PLANT PROVIDES RELIABLE POWER SOURCE

¶18. One strong point of Plateau State is that there is adequate power supply - albeit a British colonial vestige - which is unusual in Nigeria. The team visited the 1929 British colonial vintage Nesco Power Plant which produces 25 megawatts out of an installed capacity of 33 megawatts. The plant houses three turbines turned by gravity-fed water pipelines below the Kura dam. The management is successfully maintaining the old equipment, selling power, and serving as a stand-by for the Nigerian grid in Plateau State. Nesco provisions regular power to residential neighborhoods in Jos. The Nesco Plant sits in a spectacular canyon off the Plateau escarpment. The area looks like it has significant unrealized tourism potential.

¶19. Jos maintains a few vestiges of its British Colonial past, beyond fairly reliable power, although our working dinner on mining with government officials was plunged into embarrassing, momentary darkness when the power supply was cut off. Former mining management and workers housing is still visible. There is a still-functioning golf course. There are British tomb-stones in the churchyard surrounding the Anglican Church. Jos is also blessed with a renowned international school that educates the local elite (such as our hosts) and the American missionaries based in Jos.

WORLD BANK INVOLVEMENT

¶10. The World Bank has been supporting Nigeria's mineral development through at least two activities. Nigeria began working with the World Bank in 2004 to develop the Nigeria Extractive

promote transparency and accountability in the management of Nigeria's oil, gas and mining revenues. A visit to the NEITI office in Abuja revealed that Nigeria is viewed as an EITI "good pupil", implementing the initiative in its hydrocarbon sector as a way of building domestic trust and confidence. NEITI Director Stan Rerri participated in an EITI workshop in South Africa, aimed at prodding South Africa to become an implementer and leader on the continent for EITI. However, the NEITI management admitted to the Minerals Team that they had focused on energy and now needed to pay more attention to the NEITI needs of the mineral sector. As part of this process, they announced plans to hire a mineral specialist as a technical consultant.

¶11. The World Bank also has been supporting Nigeria through the "Sustainable Management of Mineral Resources" project. This project also began in 2004 and has provided Nigeria with approximately \$120 million in support. The project's principal objectives are to increase Nigeria's capacity to manage Nigeria's mineral resources and to promote income generating opportunities through small-scale and artisanal mining. It is scheduled to end in 2010, although there are plans for it to be extended. (NOTE: It was this project that provided the support for the NIM. END NOTE.) The World Bank has implemented similar "Sustainable Management of Mineral Resources" projects in Mauritania, Madagascar, Mozambique, and Uganda and will probably start one in Tanzania in 2010.

¶12. The Minerals Team met with project coordinator Linus Adie in his Abuja office. Nigeria is completing large geophysical and geochemical surveys as part of this project. The geophysical company, Fugro, is currently finishing an airborne geophysical survey that will cover 54 percent of the country with 1.2 million line kilometers of data from flight lines spaced 500 meters apart. At the same time, Nigeria is working with the British Geological Survey on a \$4 million regional geochemical sampling campaign. Both these efforts will produce important new data which should be very helpful in identifying new targets for mineral exploration.

¶13. The Nigerian Geological Survey Agency (NGSA) is one of the principal recipients of support from the "Sustainable Management of Mineral Resources" project. The USGS visited the agency and met with its director, Dr. Syian Malomo. The agency was started in 1903 with a focus on the columbite and tin resources of the Jos plateau. Qwith a focus on the columbite and tin resources of the Jos plateau. It currently has a staff of about 800. Its main office is in Abuja, but it has regional offices for geochemistry in Kaduna, geohazards in Awka, and marine and coastal geosciences in Yenagoa. They are strongly focused on work that will attract private sector investment in Nigeria's resources. The NGSA reported that they were visited by 65 potential investors in 2008, of whom 22 percent were Chinese, 18 percent were South African, 12 percent were US, 8 percent were Australian, and 40 percent were others. During the visit, the NGSA announced their intention to support a visit next year by the USGS, during which time the USGS would present a course on methods for estimating undiscovered mineral resources.

POSITIVE MINING LEGISLATION, BUT REGULATIONS DELAYED

¶14. The Nigerian government has made a decision to promote

exploration and development investment in its solid minerals sector following almost 50 years of neglect. Nigeria was one of the world's biggest producers of tin, but a combination of Dutch Disease, caused by the discovery of oil, and nationalization of mines following independence in 1960 has reduced the mining industry to a few small mines and hundreds of informal (subsistent) workings. The government produced a new minerals policy document and a minerals and mining act in 2007 in an attempt to encourage

investment. The accompanying regulations have not yet been published and are still being negotiated, although industry has been minimally consulted.

¶15. The National Minerals and Metals Policy of January 2008 makes clear that minerals are owned by the state and are to be exploited for the benefit of Nigerians. It makes clear government's intention that industry must be driven by private investment, management, and operation. It also appears to be an "apple pie" expression of all the things a potential investor wants to hear. In this respect, it is little different from mining policies the world over. Its main tenet is the privatization of the industry, security of tenure, and minimum government interference in the running of mines and marketing of product. Indigenization and adding value to raw materials is an expressed goal of the government.

¶16. The Nigerian Minerals and Mining Act of 2007 addresses most aspects of the governance of the mineral industry, the various types of permits, leases and licenses available, their qualifying requirements and durations, and time limits in which government officials must reply to the respective applications, usually within 30 to 45 days. These include:

- reconnaissance permit for one year and renewable,
- exploration license for three years and renewable,
- small-scale mining lease for a time dependent on the particular circumstances,
- mining lease for 25 years and renewable,
- quarry lease for five years and renewable, and
- water use permit, presumably for the period of the specific right granted.

¶17. Important elements are the requirements for environmental management, access to a deposit with compensation to land-owners for damages incurred, freedom to market mineral products, freedom to maintain off-shore revenues for purchases of capital equipment and supplies, together with other concessions, conditions, stipulations, and requirements. One concerning aspect is the mining company's Qand requirements. One concerning aspect is the mining company's need to negotiate a consensus social plan and "approval-to-mine" from all affected communities, which introduces uncertainty and has the potential to delay or even prevent the start of proposed mining operations. Specific implementation details must await the publishing of the Regulations. South African Mining Expert Peter Leon recently publicly characterized Nigeria's mining regime and cadastre as effective and a potential model for South Africa.

COMMENT

¶18. Nigeria still has a long way to go to demonstrate large, commercial reserves that can draw domestic and foreign investors.

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Large-scale investment will require proven reserves, a stable investment environment, and some assurance on environment and other liabilities. Nigeria seems to have lost its culture for mining as a result of nationalism, neglect, and under-investment. There are opportunities for the USGS and other agencies to provide some assistance to contribute to the GON's new-found objective to develop its solid minerals sector. Jos and the Plateau State appear to be a likely target, given their history of tin-mining and the remains of a once-thriving mining culture. Jos and the Plateau State have many qualities that could lure investment, but the area has experienced some recent political conflict over political franchise and perceived disenfranchisement between ethnic/religious groups.

¶19. Embassy Abuja, Embassy Pretoria and the U.S. Geological Service cooperated in the production of this telegram.

Sanders